

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

| | | | |
|--|--|---------------------------|--------------------|
| Unit Name* Gull Lake Sewer & Water Authority | County* KALAMAZOO | Type* AUTHORITY | MuniCode* 39-7-518 |
| Opinion Date-Use Calendar* Sep 12, 2008 | Audit Submitted-Use Calendar* Sep 30, 2008 | Fiscal Year End Month* 03 | Fiscal Year* 2008 |

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

| | |
|---------------------------------------|--|
| <input checked="" type="checkbox"/> ? | 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements? |
| <input checked="" type="checkbox"/> ? | 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets? |
| <input checked="" type="checkbox"/> ? | 3. Were the local unit's actual expenditures within the amounts authorized in the budget? |
| <input checked="" type="checkbox"/> ? | 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury? |
| <input checked="" type="checkbox"/> ? | 5. Did the local unit adopt a budget for all required funds? |
| <input checked="" type="checkbox"/> ? | 6. Was a public hearing on the budget held in accordance with State statute? |
| <input checked="" type="checkbox"/> ? | 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division? |
| <input checked="" type="checkbox"/> ? | 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act? |
| <input checked="" type="checkbox"/> ? | 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy? |
| <input checked="" type="checkbox"/> ? | 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.) |
| <input checked="" type="checkbox"/> ? | 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.) |
| <input type="checkbox"/> ? | 12. Is the local unit free of repeated reported deficiencies from previous years? |
| <input checked="" type="checkbox"/> ? | 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA |
| <input checked="" type="checkbox"/> ? | 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)? |
| <input type="checkbox"/> ? | 16. Has the board or council approved all disbursements prior to payment as required by charter or statute? |
| <input checked="" type="checkbox"/> ? | 17. To your knowledge, were the bank reconciliations that were reviewed performed timely? |
| <input checked="" type="checkbox"/> ? | 18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report? |

| | |
|------------------------------|-----------------|
| General Fund Revenue: ? | \$ 990,700.00 |
| General Fund Expenditure: ? | \$ 1,335,518.00 |
| Major Fund Deficit Amount: ? | \$ 0.00 |

| | |
|--|------------------|
| General Fund Balance: ? | \$ 15,849,327.00 |
| Governmental Activities Long-Term Debt (see instructions): ? | \$ 779,343.00 |

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

| | | | | |
|---|--------------------------------------|--------------------------------------|-------------------|------------------------------|
| CPA (First Name)* Matthew | Last Name* Howard | Ten Digit License Number* 1101013253 | | |
| CPA Street Address* 555 W. Crosstown Pkwy | City* Kalamazoo | State* MI | Zip Code* 49008 | Telephone* +1 (269) 343-8180 |
| CPA Firm Name* Seber Tans, PLC | Unit's Street Address* 11829 E. M-89 | Unit's City* Richland | Unit's Zip* 49083 | |

GULL LAKE SEWER AND WATER AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
For the Years Ended March 31, 2008 and 2007

TABLE OF CONTENTS

| | <u>Page No.</u> |
|--|-----------------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 2-4 |
| Financial Statements | |
| Statements of Net Assets | 5 |
| Statements of Revenues, Expenses and Changes in Net Assets | 6 |
| Statements of Cash Flows | 7 |
| Notes to Financial Statements | 8-16 |
| Supplemental Information | |
| Schedule of Operating Expenses Compared to Budget | 17 |
| Schedules of Principal and Interest Payments: | |
| \$265,000 Prairieville Township (Little Long Lake) General Obligation Limited Tax Bonds Dated December 27, 2002 | 18 |
| \$368,000 Township of Ross (Gull Island) General Obligation Limited Tax Bonds Dated October 19, 2004 | 19 |
| \$471,469 Township of Ross (Sherman Lake Sewer Project) Installment Purchase Agreement Dated June 7, 2007 | 20 |

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors
Gull Lake Sewer and Water Authority

We have audited the accompanying financial statements of Gull Lake Sewer and Water Authority as of and for the years ended March 31, 2008 and 2007 as listed in the table of contents. These financial statements are the responsibility of the Gull Lake Sewer and Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Gull Lake Sewer and Water Authority at March 31, 2008 and 2007 and the results of its operations and changes in cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplemental information in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Gull Lake Sewer and Water Authority. The supplemental information has been subjected to the auditing procedures applied in the audits of financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Seber Tans, PLC
Kalamazoo, Michigan
September 12, 2008

Gull Lake Sewer and Water Authority Management's Discussion and Analysis

Using This Annual Report

This annual report consists of the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. Along with the footnotes, they provide detailed financial information concerning the Authority. This section, Management's Discussion and Analysis, is intended to provide an overview of the Authority's financial condition, results of operations, and other key information.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. From a financial perspective, the Authority's core objective is to manage the long-term costs of providing sanitary sewer service to the businesses and residents (collectively the Users) of participating Municipalities. The Authority acts as an agent of the participating Municipalities. The quarterly amounts charged to Users approximate the operating costs incurred by the Authority in providing sanitary sewer collection and subsequent treatment at the City of Kalamazoo's regional facility. In addition to the annual operating costs of providing sanitary sewer, the Authority is responsible for the repayment of long-term bonds and other debt obligations incurred to finance the construction of the sanitary sewer system. Capital costs are generally charged to the benefiting party, the land owner and/or developer, at the time the infrastructure is constructed.

A significant non-cash expense of the Authority is depreciation. For budgeting purposes and for setting user rates, management does not consider depreciation expense. Depreciation expense represents costs associated with the construction of the sanitary sewer system that are financed by long-term debt obligations and assessments on the benefiting property. Customer principal payments from assessments and Authority principal payments made on long-term financing are not reflected as revenues or expenses of the Authority.

| | 2008 | 2007 |
|--|--------------|--------------|
| Total operating expense | \$ 1,335,518 | \$ 1,224,089 |
| Less depreciation and amortization | (429,459) | (403,330) |
| Operating expenses, net of depreciation and amortization | 906,059 | 820,759 |
| Users (expressed as units) | 4,128 | 4,077 |
| Cost per Unit | \$ 219 | \$ 201 |

The Authority's costs of operating are primarily affected by wastewater treatment charges from the City of Kalamazoo and the costs of contracted services and employed personnel. The sanitary sewer system covers a geographic area of approximately 15 square miles. It is projected that approximately 500 new users will connect to the sewer system over the next ten years. Some of these users may be other than single family homes and contribute flow greater than single family homes (equivalent units of flow).

The Authority's net assets increased approximately \$160,500 in 2008 and increased approximately \$621,000 in 2007. Net assets increase primarily from new public sewer construction and new connections paying connection fees.

Gull Lake Sewer and Water Authority Management's Discussion and Analysis

Authority assets, liabilities, and net assets are summarized as follows:

| | 2008 | 2007 | % Change |
|---|----------------------|----------------------|-------------|
| Capital assets | \$ 14,077,384 | \$ 13,288,376 | 5.9 |
| Other assets | 2,706,978 | 3,014,455 | -10.2 |
| Total assets | 16,784,362 | 16,302,831 | 3.0 |
| Long-term liabilities | 732,874 | 393,374 | 86.3 |
| Other liabilities | 202,161 | 220,676 | -8.4 |
| Total liabilities | 935,035 | 614,050 | 52.3 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 13,277,487 | 12,851,864 | 3.3 |
| Restricted assets | 2,270,348 | 2,515,041 | -9.7 |
| Unrestricted assets | 301,492 | 321,876 | -6.3 |
| Total net assets | \$ 15,849,327 | \$ 15,688,781 | 1.0 |

Restricted net assets represent the total of all assets restricted for future capital improvements and repayment of bond obligations.

| | 2008 | 2007 | % Change |
|---------------------------------|---------------------|---------------------|-------------|
| Operating revenue | \$ 990,700 | \$ 978,458 | 1.3 |
| Operating costs | 1,335,518 | 1,224,089 | 9.1 |
| Net loss from operations | (344,818) | (245,631) | 40.4 |
| Net non-operating revenues | 90,178 | 91,625 | -1.6 |
| Net loss | \$ (254,640) | \$ (154,006) | 65.3 |

Absent depreciation, the Authority had an excess of operating revenues over operating costs of approximately \$84,600 and \$158,000 for 2008 and 2007 respectively. Operating revenues increased by 1% and 10% for 2008 and 2007 respectively.

The increase in operating costs resulted primarily from depreciation on recent capital construction plus an increase in treatment charges from the City of Kalamazoo's regional treatment facility. Since July 1, 2007, the City of Kalamazoo has increased treatment costs by 30%.

Capital Assets and Debt Administration

The Authority had \$284,000 and \$388,000 in new sewer construction during fiscal 2008 and 2007, respectively, that required no debt financing. In fiscal 2009, it is not anticipated the Authority will incur debt for major repairs and/or replacements. In fiscal 2007, the Authority committed to the construction of the Sherman Lake Area Sewer totaling \$1,100,000, of which \$150,000 was recorded

Gull Lake Sewer and Water Authority Management's Discussion and Analysis

for 2007 and \$851,970 was recorded for 2008. The project costs were completed during fiscal 2008 and the Authority incurred debt of \$471,469. The debt will be paid from assessments levied on one large user (\$191,667) and from connection charges on customers connecting to the new sewer.

During 2009, the Gilmore Farms Sanitary Sewer – 30th Street Project (public portion) will be constructed for \$488,000. The Authority will initially contribute \$113,000 towards the project and the developer will contribute \$375,000. In recognition of the developer contribution to the Project, the Authority and the Township agree to refund to the developer 50% of the Indirect Connection Fees received by the Authority on behalf of the Township from the first 300 residential units constructed on the property connecting to the Project and connecting to additional public sewer to be constructed by the developer at the developer's cost. Through the initial contribution and refund of connection fees, it is estimated that the Authority will be responsible for approximately 60% of the project cost.

During 2007, the Authority continued to implement, on behalf of a large corporation and Richland Township, a water project connecting 22 homes to the public water line. The Township fully funded the project with \$203,343 in advances to the Authority. The project was completed during fiscal 2008 under budget and \$75,000 was returned to Richland Township.

At this time, it is not anticipated that any projects currently planned for 2009 would have a significant effect on the operations or financial position of the Authority.

Economic Factors and Next Year's Rates

Each year, the Authority monitors its cash flow for operating expenses and makes recommendations to the participating municipalities for rate increases necessary to fund operations and maintenance. Based on the higher operating costs resulting from the increase in treatment charges from the City of Kalamazoo's regional treatment facility, the Authority will increase its rate to Users mid-2008 by 8%.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact Rich Pierson, Director, or Anne Richmond, Office Manager, Gull Lake Sewer & Water Authority, at (269) 731-4595.

Gull Lake Sewer and Water Authority
Statements of Net Assets
March 31, 2008 and 2007

| | 2008 | 2007 |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 269,612 | \$ 272,605 |
| Customer accounts receivable | 114,393 | 104,600 |
| Contracts receivable | 306,000 | 310,000 |
| Other receivables | 109,266 | 29,888 |
| Total Current Assets | <u>799,271</u> | <u>717,093</u> |
| Other Assets | | |
| Contracts receivable, excluding current portion | 650,210 | 944,103 |
| Restricted cash and investments | 1,257,497 | 1,353,258 |
| Total Other Assets | <u>1,907,707</u> | <u>2,297,361</u> |
| Property and Equipment | | |
| Fixed assets, net of accumulated depreciation of \$6,491,369 and \$6,076,129 | <u>14,077,384</u> | <u>13,288,376</u> |
| Total Assets | <u>\$ 16,784,362</u> | <u>\$ 16,302,830</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable | \$ 107,513 | \$ 55,329 |
| Accrued interest | 20,554 | 2,638 |
| Advances from local government | 27,100 | 27,100 |
| Advances from others for water system development | 525 | 95,109 |
| Current portion of contract debt payable | 46,469 | 40,500 |
| Total Current Liabilities | <u>202,161</u> | <u>220,676</u> |
| Long-Term Liabilities | | |
| Contract debt payable, net of current portion | <u>732,874</u> | <u>393,374</u> |
| Total Liabilities | <u>935,035</u> | <u>614,050</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 13,277,487 | 12,851,864 |
| Restricted for debt service and other purposes | 2,270,348 | 2,515,041 |
| Unrestricted assets | 301,492 | 321,876 |
| Total Net Assets | <u>15,849,327</u> | <u>15,688,781</u> |
| Total Liabilities and Net Assets | <u>\$ 16,784,362</u> | <u>\$ 16,302,831</u> |

See Accompanying Notes to Financial Statements

Gull Lake Sewer and Water Authority
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended March 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|----------------------------------|-----------------------------|-----------------------------|
| Revenues | | |
| Charges for services | \$ 990,700 | \$ 978,458 |
| Operating Expenses | | |
| Salaries and wages | 250,712 | 229,646 |
| Fringe benefits | 76,347 | 76,130 |
| Contracted services | 487,712 | 421,900 |
| Utilities | 56,216 | 53,478 |
| Supplies | 6,893 | 8,117 |
| Maintenance and repairs | 28,179 | 31,488 |
| Depreciation | 429,459 | 403,330 |
| Total Operating Expenses | <u>1,335,518</u> | <u>1,224,089</u> |
| Operating Loss | (344,818) | (245,631) |
| Non-Operating Revenues | | |
| Interest income | 109,964 | 96,888 |
| Lease income | 16,646 | 16,646 |
| Total Non-Operating Revenues | <u>126,610</u> | <u>113,534</u> |
| Non-Operating Expenses | | |
| Interest expense | <u>36,432</u> | <u>21,909</u> |
| Loss Before Contributions | (254,640) | (154,006) |
| Capital contributed | <u>415,186</u> | <u>775,076</u> |
| Change in Net Assets | 160,546 | 621,070 |
| Net assets at beginning of year | <u>15,688,781</u> | <u>15,067,711</u> |
| Net Assets at End of Year | <u>\$ 15,849,327</u> | <u>\$ 15,688,781</u> |

See Accompanying Notes to Financial Statements

Gull Lake Sewer and Water Authority
Statements of Cash Flows
For the Years Ended March 31, 2008 and 2007

| | 2008 | 2007 |
|---|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from users | \$ 980,907 | \$ 958,350 |
| Cash payments to suppliers for goods and services | (512,466) | (505,470) |
| Cash payments to employees for services | (327,059) | (305,776) |
| Net Cash Provided by Operating Activities | <u>141,382</u> | <u>147,104</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Other non-operating revenues | 16,646 | 16,646 |
| Proceeds from connection fees | 289,127 | 168,651 |
| Net advances from others for water projects | (94,584) | (131,115) |
| Proceeds from contracts with municipalities | 293,885 | 350,796 |
| Principal paid on contract debt | (126,000) | (84,500) |
| Interest paid on contract debt | (18,516) | (22,795) |
| Proceeds from contract debt | 471,469 | - |
| Acquisition and construction of capital assets | (1,082,817) | (279,914) |
| Net Cash Provided by (Used for) Capital and Related Financing Activities | <u>(250,790)</u> | <u>17,769</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest earned on investments and receivables | 87,032 | 96,888 |
| Purchase of certificates of deposit with maturities greater than 90 days or cash, receivables, and deposits restricted for capital improvements or debt reduction | 19,383 | (121,003) |
| Net Cash Provided by (Used for) Investing Activities | <u>106,415</u> | <u>(24,115)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (2,993) | 140,758 |
| Cash and cash equivalents at beginning of year | <u>272,605</u> | <u>131,847</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 269,612</u> | <u>\$ 272,605</u> |

See Accompanying Notes to the Financial Statements

| | <u>2008</u> | <u>2007</u> |
|---|--------------------------|--------------------------|
| Supplemental Disclosures | | |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | \$ (344,818) | \$ (245,631) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 429,459 | 403,330 |
| Non-cash administrative fees | - | (19,665) |
| (Increase) decrease in: | | |
| Customer accounts | (9,793) | (444) |
| Increase (decrease) in: | | |
| Accounts payable | 66,534 | 9,514 |
| Total Changes in Assets and Liabilities Included in Operating Results | <u>486,200</u> | <u>392,735</u> |
| Net Cash Provided by Operating Activities | <u>\$ 141,382</u> | <u>\$ 147,104</u> |

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE A - Summary of Significant Accounting Policies

Authority Formation and Mission

Gull Lake Sewer and Water Authority (the Authority) was established by the Townships of Ross and Richland, Kalamazoo County, and the Townships of Barry and Prairieville, Barry County and incorporated under the provisions of Act 233, Public Acts of 1955, as amended. The Authority is governed by a board composed of the supervisors or an elected official appointed from each of the constituent Townships. The Authority was formed to operate, maintain, administer and manage sewage collection systems and water systems pursuant to Act 94, Public Acts of 1933, as amended.

Statement on Accounting Policies

The accounting policies of Gull Lake Sewer and Water Authority conform to generally accepted accounting principles as applicable to governments. The Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principle Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict with Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The Authority has elected not to follow FASB pronouncements and APB opinions issued after November 30, 1989.

Effective April 1, 2004, the Authority adopted GASB 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". The most significant change required by the adoption of GASB 34 was the reporting of net assets as shown in the accompanying Statements of Net Assets and the addition of the required supplementary information - Management's Discussion and Analysis. The Authority adopted GASB 40, "Deposits and Investment Risk Activities", for the fiscal years beginning April 1, 2005. GASB 40 affects the nature of the disclosures related to deposits and investment activities of the Authority.

Scope of Reporting Entity and Basis of Presentation

The financial statements of Gull Lake Sewer and Water Authority contain all the funds that are financially interdependent on the Authority's executive or legislative branches. The most significant manifestation in determining the reporting entity is financial interdependence. Other manifestations to be considered include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. Other criteria used to evaluate potential component units for inclusion or exclusion in a reporting entity is the existence of special financing relationships regardless of oversight responsibilities. The Authority does not have any potential component units. Based on these criteria the Authority is considered a reporting unit and is not considered a component unit of the Townships.

Basis of Accounting

All activities of the Authority are accounted for in a single proprietary fund. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. Net assets are divided into the following components: invested in capital assets-net of related debt, restricted for debt service and other purposes, and unrestricted.

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE A - Summary of Significant Accounting Policies (Continued)

Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Activities of the Authority are accounted for by using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Operating activities include all revenues and expenses associated with sewer activities. Non-operating revenues and expenses relate primarily to financing and investing activities.

Use of Restricted Assets

Certain deposits and investments are restricted by contract and/or Township ordinance for debt service purposes, capital improvements, significant repairs and replacements and by Authority policy for future contingencies. Costs of capital improvements and significant repairs and replacements are funded from restricted assets.

Fixed assets

Fixed assets of the Authority are accounted for on a cost of services or "capital maintenance" measurement focus. Fixed assets are valued at cost. Donated fixed assets are stated at their fair market value on the date donated.

Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation has been provided by using the straight-line method over the estimated useful lives of the related assets as follows: Buildings - 20 years, Sewer Lines - 50 years, Equipment - 10 years, Vehicles - 10 years and Water Lines - 50 years.

Capitalized interest

Interest costs on debt incurred to finance fixed asset additions is capitalized during the construction period for additions greater than \$1,000,000 and six months duration. Interest is capitalized at the rate of the associated debt instrument based on the cost incurred on the related construction until such time as the sewer system is ready for service. The interest capitalized is added to the carrying cost of the sewer system.

Estimates

Preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management. Estimates are subject to change and, accordingly, actual results may differ from the estimates used in preparation of the accompanying financial statements. These financial statements include estimates primarily as to the depreciable lives and salvage values of fixed assets, and the current portion of contracts receivables.

Cash and cash equivalents

For purposes of the statements of cash flows, all highly liquid investments, with a maturity of three months or less when purchased, that are not restricted for capital additions or debt retirement are considered to be cash equivalents.

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE B - Cash, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its treasurer or other chief financial officer to invest surplus funds belonging to and under the control of the entity into certain instruments described as follows: bonds and other direct obligations of the United States or an agency of the State of Michigan or its political subdivisions, or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank or savings and loan, which is a member of the Federal Deposit Insurance Corporation or a credit union which is insured by the National Credit Union. The Authority may invest in commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase; in United States government or federal obligation repurchase agreements; in bankers' acceptances of United States banks; in mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan and SEC regulated; or in surplus funds investment pools.

The Authority's cash and restricted assets were held with six different banking institutions with locations in southwest Michigan.

Balances at March 31 related to cash and cash equivalents and deposits (including certificates of deposit with greater than 90 day maturities at purchase) are detailed on the balance sheets as follows:

| | Totals (Memorandum Only) | |
|---|-----------------------------|----------------------------|
| | 2008 | 2007 |
| Cash and cash equivalents | \$ 269,612 | \$ 272,605 |
| Restricted assets (See Note D) | | |
| Certificates of deposits with greater than 90 day maturities at date of purchase | 536,428 | 439,243 |
| Deposits | <u>721,069</u> | <u>914,015</u> |
| TOTALS | <u>\$ 1,527,109</u> | <u>\$ 1,625,863</u> |

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE B - Cash, Deposits and Investments (Continued)

Cash and deposits (including restricted assets) at March 31, as shown by carrying amount and bank balance and classified by categories of credit risk are itemized as follows:

| | 2008 | | 2007 | |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Carrying Amount | Bank Balance | Carrying Amount | Bank Balance |
| FDIC insured | \$ 556,654 | \$ 556,654 | \$ 586,103 | \$ 600,000 |
| Uninsured and uncollateralized | 970,455 | 1,038,193 | 1,039,760 | 1,214,724 |
| TOTALS | \$ 1,527,109 | \$ 1,594,847 | \$ 1,625,863 | \$ 1,814,724 |

NOTE C - Receivables

Customer accounts receivable represent current sewer usage charges receivable. Unpaid customer accounts receivables are added to the tax rolls after approximately one year.

Long-term contracts receivable at March 31, consists of the following:

| | Current Portion | | Total | |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Connection fees | \$ 21,000 | \$ 50,000 | \$ 153,168 | \$ 151,777 |
| Developers | 10,000 | 20,000 | 183,666 | 186,066 |
| Municipalities, assessment rolls | 275,000 | 240,000 | 619,376 | 916,260 |
| | <u>\$ 306,000</u> | <u>\$ 310,000</u> | <u>956,210</u> | <u>1,254,103</u> |
| Less current portion | | | (306,000) | (310,000) |
| TOTALS | | | \$ 650,210 | \$ 944,103 |

Contracts receivable from developers include a number of contract obligation contracts. One contract is for the extension of a sewer line to service a development in Richland Township. At March 31, 2008 and 2007, \$44,400 and \$46,800, respectively, of the receivable on this contract is due as connections are made at the rate of \$600 per connection. The developer's obligation for repayment of this receivable is limited to new connections on the property.

A second contract with a developer is for the extension of the public sewer to a 128-acre parcel of land in Charleston Township that has been approved for residential development. The total cost of the project, approximately \$235,000, was funded from monies restricted for capital improvement. The developer has committed to repay the authority in ten equal annual principle payments plus interest at 6%. Repayment is secured by a lien on the property. At March 31, 2008 and 2007, the amounts receivable under this contract totaled \$139,266.

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE C - Receivables (Continued)

The Authority evaluates the collectibility of contracts receivable from developers annually. At March 31, 2008, the Authority had approximately \$190,000 of contracts that at least one annual payment was delinquent. These contracts are secured by mechanics liens on the properties and management believes the amounts receivable will be realized through repayment or through the collateral. No allowance for doubtful accounts has been made in the accompanying financial statements.

Contracts receivable from connection fees represent amounts due from individuals and businesses for their initial connection to the sewer system. The amounts are receivable over a contractual term, usually requiring annual payments over 10 years from the date of connection, plus interest at 7% per annum on the unpaid balance and are secured by a lien on the premises.

Contracts receivable from municipalities represent contractual amounts that are secured by special assessment rolls. Under the contracts, collection of special assessment rolls is made by the appropriate municipality and transferred to the Authority. The collections represent charges to the municipalities' residents and businesses for connection to the sewer system. The fees are paid annually at terms ranging from 10 years to 20 years, plus interest at 1% over the Authority's cost of funds on the unpaid balance. At March 31, 2008, three townships and one village accounted for 100% of the contract receivables. The individual residents and businesses are legally responsible for payment of the fees. This disperses the credit risk over the premises in the geographic area. The assessments become priority liens on each assessed premises. Additionally, unpaid portions of assessments due become tax liens due and payable in the same manner as property taxes.

NOTE D - Restricted Assets

Deposits and investments at March 31 are restricted for the following purposes:

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Reserved for payment on Sherman Lake debt issued June 7, 2007 | \$ 232,857 | \$ 13,433 |
| Reserved for payment on Little Long Lake debt issued December 27, 2003 | 21,571 | 50,769 |
| Reserved for payment on Gull Island debt issued October 19, 2004 | 7,335 | 7,931 |
| Reserved for payment on Sewer Construction | 40,201 | 191,812 |
| Reserved for capital improvements | 682,811 | 674,859 |
| Reserved for the construction of water facilities | 4,905 | 98,707 |
| Reserved for larger equipment replacements | 234,008 | 311,962 |
| Reserved, other | <u>33,809</u> | <u>3,785</u> |
| TOTAL RESTRICTED DEPOSITS AND INVESTMENTS | <u>\$ 1,257,497</u> | <u>\$ 1,353,258</u> |

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE E - Summary of Property and Equipment

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2008, are detailed as follows:

| | Balances April 1, 2007 | Additions | Disposals | Balances March 31, 2008 |
|---------------------------------------|---------------------------|-------------------|--------------------|----------------------------|
| Cost | | | | |
| Land and improvements | \$ 619,437 | \$ --- | \$ --- | \$ 619,437 |
| Buildings | 173,623 | --- | --- | 173,623 |
| Equipment | 537,159 | 35,067 | --- | 572,226 |
| Sewer system | 17,949,035 | 1,154,261 | --- | 19,103,296 |
| Vehicles | 85,251 | 41,581 | (26,661) | 100,171 |
| Total Property and Equipment | 19,364,505 | 1,230,909 | (26,661) | 20,568,753 |
| Accumulated depreciation | | | | |
| Land and improvements | 101,219 | 3,895 | --- | 105,114 |
| Buildings | 123,754 | 4,730 | --- | 128,484 |
| Equipment | 461,012 | 25,358 | --- | 486,370 |
| Sewer system | 5,344,443 | 385,665 | --- | 5,730,108 |
| Vehicles | 45,701 | 9,811 | (14,219) | 41,293 |
| Total Accumulated Depreciation | 6,076,129 | 429,459 | (14,219) | 6,491,369 |
| Net Property and Equipment | \$ 13,288,376 | \$ 801,450 | \$ (12,442) | \$ 14,077,384 |

NOTE F - Long-term Debt

The following is a summary of debt transactions of the Authority for the years ended March 31, 2008 and 2007:

| | |
|------------------------------|-------------------|
| Debt payable, April 1, 2006 | \$ 518,374 |
| Debt retired | (84,500) |
| DEBT PAYABLE, MARCH 31, 2007 | 433,874 |
| Debt issued | 471,469 |
| Debt retired | (126,000) |
| DEBT PAYABLE, MARCH 31, 2008 | <u>\$ 779,343</u> |

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE F - Long-term Debt (Continued)

The contract debt payable at March 31 consists of the following issues:

| | 2008 | 2007 |
|--|-------------------|-------------------|
| \$471,469 Township of Ross (Sherman Lake Sewer Project) Installment Purchase Agreement dated June 7, 2007, due in annual principal installments of \$36,469 in 2009, \$220,000 in 2010, \$20,000 for 2011 through 2014 and \$15,000 thereafter, plus interest payable annually on June 7 at 4.20%. | \$ 471,469 | \$ --- |
| \$265,000 Prairieville Township (Little Long Lake) General Obligation Limited Tax Bonds dated December 27, 2002, due in annual principal installments of \$20,000 through June 1, 2015 and \$1,963 on June 1, 2016, plus interest payable semi-annually on June 1 and December 1 of each year at 1.60% to 4.60%. | 109,874 | 159,874 |
| \$275,000 Village of Richland (Bunkerhill) General Obligation Limited Tax Bonds dated April 1, 1999 | --- | 32,000 |
| \$205,000 Village of Richland (32 nd Street) General Obligation Limited Tax Bonds dated June 4, 1998 | --- | 23,000 |
| \$368,000 Township of Ross (Gull Island) General Obligation Limited Tax Bonds dated October 19, 2004, due in annual principal installments of \$26,000 through April 1, 2019, plus interest payable semi-annually on April 1 and October 1 of each year at 4.75%. | 198,000 | 219,000 |
| | 779,343 | 433,874 |
| Less current maturities | (46,469) | (40,500) |
| TOTALS | \$ 732,874 | \$ 393,374 |

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE F - Changes in Long-term Debt (Continued)

The annual minimum debt service requirements, including interest for long-term debt outstanding as of March 31, 2008 are as follows:

| <u>Years Ending March 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-----------------------------------|--------------------------|--------------------------|--------------------------|
| 2009 | \$ 46,469 | \$ 33,156 | \$ 79,625 |
| 2010 | 240,000 | 31,134 | 271,134 |
| 2011 | 40,000 | 21,195 | 61,195 |
| 2012 | 56,000 | 19,225 | 75,225 |
| 2013 | 65,874 | 16,605 | 82,479 |
| 2014-2018 | 230,000 | 47,438 | 277,438 |
| 2019-2022 | <u>101,000</u> | <u>10,067</u> | <u>111,067</u> |
| TOTALS | <u>\$ 779,343</u> | <u>\$ 178,819</u> | <u>\$ 958,162</u> |

For the years ended March 31, 2008 and 2007, the Authority incurred interest costs of \$36,432 and \$21,909, respectively. The Authority did not capitalize any interest charges during the years ended March 31, 2008 and 2007.

NOTE G - Retirement Plan

The Authority has a defined contribution retirement plan established under Section 401(a) of the Internal Revenue Code. The Gull Lake Sewer and Water Authority Group Pension Plan covers all eligible employees. The Authority has the right to amend or terminate the Plan at any time. Contributions by the employer are fixed at the discretion of the Authority and individual accounts are maintained for each participant. Employees may contribute after tax contributions ranging from 1% to 10% of eligible wages. Employer contributions for the years ended March 31, 2008 and 2007 were approximately 8.0% of covered payroll. Total expense was \$13,430 and \$12,848 in 2008 and 2007, respectively.

NOTE H - Non-cash Activities

For the years ended March 31, the Authority had the following non-cash activity:

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|-------------------|
| Connection fee contracts added | <u>\$ 265,186</u> | <u>\$ 126,352</u> |
| Assessment contracts added | <u>\$ ---</u> | <u>\$ 575,000</u> |
| Sewer constructed and contributed by developers | <u>\$ 150,000</u> | <u>\$ 40,000</u> |

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE I - Commitments and Contingencies

The Authority, in the normal operation of its activities, has exposure for damage to residential and commercial property and personal injury resulting from the operation or construction of its sewer system. The Authority's Board has elected to self-insure against this risk. The Authority's board believes that funds accumulated and restricted for significant replacements, as disclosed in Note D, are adequate to cover the associated risk.

The Authority is working with municipalities and developers for several potential projects. Should the Authority determine that it is in the best interest of the current and future users of the system, capital improvement funds may be invested in these projects.

SUPPLEMENTAL INFORMATION

Gull Lake Sewer and Water Authority
Schedule of Operating Expenses Compared to Budget
For the Year Ended March 31, 2008
(Comparative Actual Amounts for the Year Ended March 31, 2007)

| | 2008 | | Variance - | 2007 |
|---------------------------------------|-------------------|-------------------|----------------------------|-------------------|
| | Budget | Actual | Favorable (Unfavorable) | Actual |
| Salaries and wages | \$ 237,260 | \$ 250,712 | \$ (13,452) | \$ 229,646 |
| Fringe benefits: | | | | |
| Social security | 18,134 | 17,544 | 590 | 17,568 |
| Hospitalization | 47,000 | 42,678 | 4,322 | 44,926 |
| Life insurance | 500 | 445 | 55 | 619 |
| Retirement | 12,748 | 13,430 | (682) | 12,848 |
| Disability | 2,200 | 2,250 | (50) | 169 |
| | <u>80,582</u> | <u>76,347</u> | <u>4,235</u> | <u>76,130</u> |
| Contracted services: | | | | |
| Insurance/workman's compensation | 25,068 | 29,126 | (4,058) | 19,070 |
| Contracted services | 32,000 | 30,914 | 1,086 | 36,813 |
| Treatment charges | 371,793 | 380,131 | (8,338) | 322,502 |
| Chemical treatment | 15,200 | 10,191 | 5,009 | 15,199 |
| Engineering | 8,500 | 9,695 | (1,195) | 6,053 |
| Publications/ printing | 1,700 | 1,234 | 466 | 1,500 |
| Audit | 6,000 | 6,300 | (300) | 5,780 |
| Legal | 6,500 | 5,312 | 1,188 | 5,498 |
| Radio | 2,000 | 729 | 1,271 | 1,163 |
| Dues/education/sales | 3,675 | 547 | 3,128 | 2,645 |
| Mileage/travel/entertainment | 3,150 | 4,533 | (1,383) | 2,977 |
| Authority meetings | 3,150 | 3,000 | 150 | 2,700 |
| Regional committee membership | 8,250 | 6,000 | 2,250 | - |
| | <u>486,986</u> | <u>487,712</u> | <u>(726)</u> | <u>421,900</u> |
| Utilities: | | | | |
| Fuel gasoline and diesel | 5,368 | 7,981 | (2,613) | 5,172 |
| Electric and gas | 41,711 | 42,019 | (308) | 42,504 |
| Telephone | 5,954 | 6,216 | (262) | 5,803 |
| | <u>53,033</u> | <u>56,216</u> | <u>(3,183)</u> | <u>53,479</u> |
| Supplies: | | | | |
| Postage | 5,200 | 4,618 | 582 | 4,875 |
| Office | 3,600 | 2,275 | 1,325 | 3,242 |
| | <u>8,800</u> | <u>6,893</u> | <u>1,907</u> | <u>8,117</u> |
| Maintenance and repairs: | | | | |
| General maintenance | 8,000 | 8,735 | (735) | 6,025 |
| Field operations | 25,000 | 21,860 | 3,140 | 15,619 |
| Repairs and maintenance | - | (2,416) | 2,416 | 9,844 |
| | <u>33,000</u> | <u>28,179</u> | <u>4,821</u> | <u>31,488</u> |
| Totals, Excluding Depreciation | <u>\$ 899,661</u> | <u>\$ 906,059</u> | <u>\$ (6,398)</u> | <u>\$ 820,760</u> |

See Accompanying Independent Auditors' Report

Gull Lake Sewer and Water Authority
Schedule of Principal and Interest Payments
\$265,000 Praireville Township (Little Long Lake) General
Obligation Limited Tax Bonds Dated December 27, 2002
For the Years Ended March 31, 2008 and 2007

| Years Ending March 31, | Rate | Principal December 1 | Interest | | Totals |
|------------------------------|--------|-------------------------|-----------------|-----------------|-------------------|
| | | | June 1 | December 1 | |
| 2009 | 3.10 % | \$ 10,000 | \$ 2,052 | \$ 1,897 | \$ 13,949 |
| 2010 | 3.35 | 20,000 | 1,897 | 1,562 | 23,459 |
| 2011 | 3.65 | 20,000 | 1,562 | 1,198 | 22,760 |
| 2012 | 3.85 | 20,000 | 1,198 | 812 | 22,010 |
| 2013 | 4.00 | 19,874 | 812 | 415 | 21,101 |
| 2014 | 4.15 | 20,000 | 415 | - | 20,415 |
| Totals | | \$ 109,874 | \$ 7,936 | \$ 5,884 | \$ 123,694 |

See Accompanying Independent Auditors' Report

**Gull Lake Sewer and Water Authority
Schedule of Principal and Interest Payments
\$368,000 Township of Ross (Gull Island) General
Obligation Limited Tax Bonds Dated October 19, 2004
For the Years Ended March 31, 2008 and 2007**

| Years Ending March 31, | Rate | Principal December 1 | Interest | | Totals |
|------------------------------|--------|-------------------------|------------------|------------------|-------------------|
| | | | June 1 | December 1 | |
| 2009 | 4.75 % | \$ --- | 4,703 | 4,703 | 9,406 |
| 2010 | 4.75 | --- | 4,703 | 4,703 | 9,406 |
| 2011 | 4.75 | --- | 4,703 | 4,703 | 9,406 |
| 2012 | 4.75 | 16,000 | 4,703 | 4,323 | 25,026 |
| 2013 | 4.75 | 26,000 | 4,323 | 3,705 | 34,028 |
| 2014 | 4.75 | 26,000 | 3,705 | 3,088 | 32,793 |
| 2015 | 4.75 | 26,000 | 3,088 | 2,470 | 31,558 |
| 2016 | 4.75 | 26,000 | 2,470 | 1,853 | 30,323 |
| 2017 | 4.75 | 26,000 | 1,853 | 1,235 | 29,088 |
| 2018 | 4.75 | 26,000 | 1,235 | 615 | 27,850 |
| 2019 | 4.75 | 26,000 | 614 | - | 26,614 |
| Totals | | \$ 198,000 | \$ 36,100 | \$ 31,398 | \$ 265,498 |

See Accompanying Independent Auditors' Report

Gull Lake Sewer and Water Authority
Schedule of Principal and Interest Payments
\$471,469 Township of Ross (Sherman Lake Sewer Project)
Installment Purchase Agreement Dated June 7, 2007
For the Years Ended March 31, 2008 and 2007

| <u>Years Ending March 31,</u> | <u>Rate</u> | <u>Principal June 7,</u> | <u>Interest June 7,</u> | <u>Totals</u> |
|---------------------------------------|-------------|------------------------------|-----------------------------|--------------------------|
| 2009 | 4.2 % | \$ 36,469 | \$ 19,802 | \$ 56,271 |
| 2010 | 4.2 | 220,000 | 18,270 | 238,270 |
| 2011 | 4.2 | 20,000 | 9,030 | 29,030 |
| 2012 | 4.2 | 20,000 | 8,190 | 28,190 |
| 2013 | 4.2 | 20,000 | 7,350 | 27,350 |
| 2014 | 4.2 | 20,000 | 6,510 | 26,510 |
| 2015 | 4.2 | 15,000 | 5,670 | 20,670 |
| 2016 | 4.2 | 15,000 | 5,040 | 20,040 |
| 2017 | 4.2 | 15,000 | 4,410 | 19,410 |
| 2018 | 4.2 | 15,000 | 3,780 | 18,780 |
| 2019 | 4.2 | 15,000 | 3,150 | 18,150 |
| 2020 | 4.2 | 15,000 | 2,520 | 17,520 |
| 2021 | 4.2 | 15,000 | 1,890 | 16,890 |
| 2022 | 4.2 | 15,000 | 1,260 | 16,260 |
| 2023 | 4.2 | 15,000 | 630 | 15,630 |
| Totals | | <u>\$ 471,469</u> | <u>\$ 97,502</u> | <u>\$ 568,971</u> |

See Accompanying Independent Auditors' Report

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Supervisors and
General Manager of Gull Lake Sewer
& Water Authority

In planning and performing our audit of the financial statements Gull Lake Sewer & Water Authority for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Gull Lake Sewer & Water Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control

Separation of duties

Due to the small size of the Authority's office staff (three personnel), separation of duties is limited. The Office Manager has access to assets, recording of the assets and reconciliation functions. The Director initiates and authorizes all significant transactions. As a result, the risk of loss, error, or irregularities of assets increases. We recommend that the Authority Supervisors review key financial reports and reconciliations periodically for unusual matters. In addition, fidelity bonds as discussed below should adequately cover all personnel with access to accounting records and assets of the Authority. This is a repeat finding from the prior year.

Collateralizing bank balances in excess of \$100,000

The Authority maintains several cash accounts and certificates of deposit at various banks. The balances with many of these institutions exceed the FDIC insurance limit of \$100,000. Should a bank fail, the Authority may incur a loss if the cash invested at the bank exceeds the insurance limits. We recommend that the Authority monitor the financial condition of banks in which it has cash balances greater than the FDIC insurance limit, and that it continue its efforts to obtain collateral for balances in excess of FDIC insurance limits. The Authority may request banks to pledge securities for payment of any uninsured losses or it may consider investing in other insured financial instruments. This is a repeat finding from the prior year.

This communication is intended solely for the information and use of the Board of Supervisors and Management of Gull Lake Sewer & Water Authority, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Seber Tans, PLC". The signature is written in a cursive, flowing style.

Seber Tans, PLC
September 12, 2008

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

September 12, 2008

To the Board of Supervisors and Director of
Gull Lake Sewer & Water Authority

We have audited the financial statements (a single enterprise fund) of Gull Lake Sewer & Water Authority for the year ended March 31, 2008, and have issued our report thereon dated September 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 25, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on April 25, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Gull Lake Sewer & Water Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

Management's estimate of the depreciation based on the economic useful lives of the assets, the current portions of assessments and contracts receivable based on contractual terms and past history, and the collections of assessments and user bills receivable based on past history, status of current accounts, and applicable lien laws. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. Management prepares the financial statements primarily on the cash basis. The material adjustments made by management were to reflect accrual entries and to report the financial statements in the format required by Government Accounting Standards.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 12, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's

To the Board of Supervisors and
Director of Gull Lake Sewer
& Water Authority
Page 3

auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Supervisors, Director, and management of Gull Lake Sewer & Water Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


Seber Tans, PLC